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SUBJECT: South Asia: Integration as Anti-crisis Response

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11. (SBU) Summary: At the December 11 opening of the "Second South Asia Economic Summit" in New Delhi, speakers stressed that enhanced regional cooperation could be an effective response to the global recession and allow countries to diversify and insulate against developed country problems in the future. The President of the South Asian Association of Regional Cooperation (SAARC) Chamber of Commerce and Industry, who is Pakistani, said that "mindset" was the biggest problem for the region but he believed increased trade could be a big part of the solution to Indo-Pakistani relations. He called for SAARC visa exemption stickers and stressed that a SAARC development fund could help members pool resources to confront the next economic crisis. A United Nations official opined that indirect trade between Indian and Pakistan resulted in huge revenue losses to the two countries. He suggested bilateral currency swaps may help facilitate South Asia Free Trade Agreement (SAFTA) cooperation. Post notes with interest India's increasing efforts to take a leadership role in SAARC economic relations. Vocal SAFTA proponents among the Pakistani business community are a welcome sign and could help convince the GOP of at least the economic value of SAFTA. End Summary.

12. (U) On December 11-12, Research and Information System for Developing Countries (RIS), a GOI-funded think tank affiliated with the Ministry of External Affairs, hosted the "Second South Asia Economic Summit: South Asia in the Context of the Global Financial Meltdown." The United Nations Development Program (UNDP), United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), Asian Development Bank (ADB), Australian Centre for Effective Partnerships, and Federation of Indian Chambers of Commerce and Industry (FICCI) were collaborators. The conference agenda and concept paper can be found at <http://www.ris.org.in/>.

13. (U) Biswajit Dhar, Director General of RIS, opened the conference indicating that there had been overwhelming support for the conference with delegations from a number of countries attending. ADB Vice President Zhao Xiaoyu said the GDP growth slowdown in South Asia (from 8.6 percent in 2007 to 6.3 percent in 2008) threatens poverty reduction gains. He called for enhanced regional cooperation as an anti-crisis response and to allow countries to diversify and insulate against developed country problems in the future. Noting that intra-regional trade in South Asia is just 5.5 percent of global trade compared with 27 percent for the Association of Southeast Asian Nations (ASEAN), Zhao stressed the need for standardization of cross-border procedures, regional infrastructure development, and policy reforms to promote increased flows of long-term financing and public-private partnerships.

14. (U) Tariq Sayeed, President of the SAARC Chamber of Commerce and Industry and CEO of Pakistan Export Corporation based in Karachi, Pakistan, said that "mindset" was the biggest problem for the region but he believed increased trade could be a big part of the solution to Indo-Pakistani relations. He praised FICCI's participation in the conference and noted that he had helped smooth ruffled feathers when a FICCI publication offended Pakistani officials some years ago. Sayeed highlighted the importance of SAFTA and said that Indian Finance Minister Mukherjee had endorsed his idea of SAARC visa exemption stickers. He called for increased information technology linkages and harmonization of customs procedures in South Asia. Food security, climate change, and energy security were other big challenges for the region meriting collaboration, Sayeed added. He stressed that a SAARC development fund could help members pool resources to confront the next economic crisis.

15. (U) Ajay Chhibber, UN Assistant Secretary-General and UNDP Assistant Administrator and Director for Regional Bureau for Asia and Pacific, said Asia is cyclically tied to the developed world but could de-couple with appropriate policies. He noted that inequality had worsened in South Asia in the 1990s, since capital had accumulated in the services and manufacturing sectors while the agriculture sector became comparatively less productive. Better coverage of anti-poverty programs was critically needed in the region, Chhibber added. He agreed with Zhao that regional cooperation is a key countervailing influence to the economic crisis, adding that deepening SAFTA was ripe and low-hanging fruit. Chhibber indicated that bilateral currency swaps, like those under the ASEAN+3 Chiang Mai Initiative, could help facilitate trade. He opined that indirect trade between Indian and Pakistan resulted in huge revenue losses to the two countries. Chhibber said SAFTA had achieved zero progress in services integration and pointed to a conference paper ("Regional Economic Integration: Deepening of

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SAFTA" by Dushni Weerakoon) with recommendations for improvement. On the other hand, he indicated that India's increased cooperation with other nations in Asia on new free trade agreements had the potential to make India the "gateway" to ASEAN and the rest of Asia.

Comment

16. (SBU) Post welcomes India's increasing efforts to take a leadership role in SAARC economic relations. Vocal SAFTA proponents among the Pakistani business community are a positive sign and could help convince the GOP of at least the economic value of SAFTA. International commentators should be careful in their efforts to communicate the benefits of South Asia collaboration, as Pakistan may be more likely to see India as a gatekeeper than a partner that will facilitate trade with other regions. Post will continue to monitor such collaboration closely in the run up to the April SAARC summit.

Roemer